

# DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
Item 54 ID#4114  
ENERGY DIVISION  
**RESOLUTION E-3906**  
December 16, 2004

## R E S O L U T I O N

Resolution E-3906. Pacific Gas and Electric Company (PG&E) submits electric tariff revisions to recover balances in balancing accounts, establish the regulatory asset revenue requirement, and consolidate changes to electric rates effective January 1, 2005. Approved with modifications.

By Advice Letter (AL) 2570-E filed on October 15, 2004.

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### SUMMARY

**PG&E's proposal to revise electric rates effective January 1, 2005 to recover balancing account balances, establish the 2005 regulatory asset revenue requirement, and consolidate authorized rate changes is approved with the following modifications:**

- Balances in balancing accounts authorized for recovery in rates shall be subject to future audit, verification, and adjustment as necessary.
- PG&E shall submit an advice letter for future true-up of electric balancing accounts by September 1 for rates effective January 1 of the following year. PG&E shall revise its tariffs for balancing accounts included in the true-up advice letter to indicate that disposition of the accounts will be done by advice letter.
- PG&E shall remove tariff changes proposed in AL 2570-E to Preliminary Statement part DE addressing the head room account, and file these changes as a supplement to currently pending AL 2555-G/2521-E.
- PG&E shall track the revenues it collects through increasing generation rates for residential usage above 130% of baseline to recover the shortfall resulting from the requirements of Section 80110 of the Water Code. The allocation of

these revenues shall be determined in phase 2 of PG&E's test year 2003 general rate case (TY 2003 GRC), Application (A.) 04-06-024.

**The 2005 revenue requirement increase estimated in AL 2570-E is \$315 million; of this amount \$221 million is related to rate changes authorized by the Federal Energy Regulatory Commission (FERC).**

PG&E estimates that the rates will increase by about \$315 million in 2005 resulting from changes authorized by the California Public Utilities Commission (Commission or CPUC) and FERC. The FERC-authorized changes result in an increase of about \$221 million.

**PG&E shall revise the estimate to reflect actual changes authorized by the Commission and FERC prior to the end of 2004.**

PG&E will supplement AL 2570-E before the end of 2004 to reflect the actual rate changes authorized by the Commission in various proceedings and advice letters, and the changes actually authorized by the FERC. The supplement to AL 2570-E will also incorporate updated balances to accounts to be amortized in rates on January 1, 2005.

The rate changes which are authorized by FERC and subject to refund are just and reasonable.

## **BACKGROUND**

**Decision (D.) 03-12-035 approved the modified settlement agreement (MSA); the MSA established the regulatory asset and changed PG&E's rate structure as PG&E emerged from bankruptcy.**

D.03-12-035 approved the MSA between the Commission and PG&E regarding PG&E's emergence from bankruptcy. Among other things, the MSA set up the regulatory asset of \$2.21 billion as a separate part of PG&E's rate base to be amortized in rates over nine years. The MSA also specified that PG&E file an advice letter to implement all rate and tariff changes necessary to implement the settlement plan.

**Resolution E-3862 addressing the advice letter filed by PG&E pursuant to the MSA approved new regulatory accounts.**

Resolution E-3862 dated April 1, 2004 addressed PG&E's AL 2510-G/2460-E filed pursuant to the MSA. Resolution E-3862 approved several new regulatory accounts. Among these accounts are:

- Regulatory asset revenue adjustment mechanism (RARAM), which ensures recovery of the regulatory asset revenue requirement through two separate sub accounts;
- Four revenue adjustment mechanisms to ensure that PG&E recovers its authorized revenue requirements for distribution (DRAM), public purpose programs (PPPRAM), nuclear decommissioning (NDAM), and utility retained generation (UGBA);
- Power charge collection balancing account (PCCBA), which tracks the difference between revenues that PG&E remits to the Department of Water Resources (DWR) according to the PG&E/DWR servicing agreement, and the revenue that PG&E collects from customers from the rate established by the Commission in the DWR power charge proceeding;
- Rate reduction bond memorandum account (RRBMA), which records the difference between the rate reduction bond savings and the 10% rate reduction provided to residential and small commercial customers authorized by Assembly Bill (AB) 1890 (1996);
- Electric reimbursable fees balancing account (ERFBA) which allows recovery of the electric portion of amounts reimbursed by PG&E to the Commission for professional fees related to the bankruptcy case.

**PG&E proposes in AL 2570-E to establish the 2005 regulatory asset revenue requirement, amortize the balances in various balancing accounts, and consolidate Commission and FERC-authorized rate changes on January 1, 2005.**

In AL 2570-E PG&E proposes to establish new rates effective January 1, 2005. These new rates would reflect the 2005 regulatory asset revenue requirement, amortization of balances in the accounts described above, plus the balances in the hazardous substance mechanism (HSM) and the streamlining residual account (SRA).

These rates would also incorporate all rate changes authorized in Commission proceedings and approved in advice letters prior to January 1, 2005. These include rate changes that may be authorized before the end of 2004 in PG&E's cost of capital application (A.) 04-05-023, energy resource recovery account

(ERRA) A.04-06-003, low-income and CARE-related A.04-07-013, and electric restructuring costs A.00-07-013. PG&E would also incorporate the effect of the DWR bond and power charge allocation for 2005 if the Commission issues a decision on these matters before the end of 2004.

If certain advice letters are approved prior to the end of 2004, PG&E would incorporate their effects in January 1, 2005 rates. These ALs address: 2005 attrition, the head room account, the fixed transition account true-up, the self-generation program memorandum account, the advanced metering and demand response memorandum account, the system safety and reliability enhancement fund balancing account, and the electric vehicle balancing account.

PG&E also proposes that the rate changes to be consolidated on January 1, 2005 reflect rate changes for reliability services costs, the transmission access charge, transmission revenue adjustments, and end use customer refunds for which PG&E anticipates receiving approval from FERC prior to January 1, 2005.

**PG&E estimates in AL 2570-E a consolidated revenue requirement increase for 2005 of \$315 million; of this amount, \$221 million is related to FERC-authorized costs and \$94 million is related to Commission-authorized costs.**

In AL 2570-E PG&E provided illustrative rates based on balancing account balances as of August 31, 2004 and revenue requirement requests filed in the applications and advice letters noted above. The total annual revenue requirement increase for 2005 reflecting these illustrative rates is approximately \$315 million. A breakdown of the components of the annual revenue requirement increase estimated in AL 2570-E is as follows:

- Estimated FERC-Authorized 2005 Increase: \$221 million.
  - Reliability Services: \$175 million;
  - Transmission Revenue Adjustment: \$27 million;
  - Transmission Access Charge: \$19 million.
- Estimated CPUC-Authorized 2005 Increase: \$94 million.
  - ERRA A.04-06-003: \$99 million;
  - DWR Bond and Power Charges (excluding PCCBA): \$90 million;
  - Electric Restructuring Cost A.00-07-013: \$80 million;

- 2005 Attrition: \$74 million;
- Regulatory Asset including RARAM Amortization: \$27 million;
- Public Purpose and CARE-related (excluding PPPRAM): \$21 million;
- Other Pending ALs: \$30 million.
- Balancing Account Amortization (excluding RARAM): -\$327 million; the PCCBA and the UGBA are each over-collected by more than \$150 million.

**PG&E proposes to supplement AL 2570-E prior to January 1, 2005 to incorporate updated balancing account balances and the revenue requirement changes actually approved by the Commission and FERC.**

PG&E proposes to supplement the AL prior to the end of 2004 to incorporate balancing account balances recorded as of November 30, 2004, and the revenue requirement changes actually authorized by the Commission and FERC by the end of the year. The supplemental AL would include the new rates and revised tariffs to become effective on January 1, 2005.

### **NOTICE**

Notice of AL 2570-E was made by publication in the Commission's Daily Calendar. PG&E states that the AL was mailed and distributed in accordance with Section III-G of General Order 96-A, and served on parties to A.02-11-017, A.04-07-032, A.04-05-023, I.02-04-026, A.00-11-038, R.98-07-037, A.04-06-003, A.00-07-013, A.99-03-039, A.02-03-020, and A.02-06-019.

### **PROTESTS**

PG&E's AL 2570-E was not protested.

### **DISCUSSION**

**It is reasonable to consolidate Commission and FERC-approved rate changes; FERC-authorized rates, which are subject to refund, are just and reasonable.**

PG&E's proposal to consolidate all Commission and FERC-approved rate changes makes administrative sense and should be approved. Under the filed rate doctrine, the Commission is generally obligated to pass through FERC-authorized rates to PG&E's customers. It is just and reasonable for PG&E to

implement all rate changes referenced in AL 2570-E that are subject to approval by FERC when FERC makes those new rates effective subject to refund to the same extent as at the FERC.

**PG&E may consolidate new rates effective on January 1, 2005; those rates are subject to Commission staff review for compliance with relevant Commission and FERC authorization.**

We grant PG&E's proposal to supplement AL 2570-E to provide tariffs and new rates reflecting all Commission and FERC-authorized rate changes approved prior to January 1, 2005. Based on comments submitted on the draft resolution, we also allow PG&E to amortize balances in accounts addressed in its ERRA A.04-06-003 beginning January 1, 2005 subject to adjustment, audit, and verification based on a decision in that proceeding which we expect will be issued after January 1, 2005. PG&E shall provide information to Energy Division in the supplemental advice letter showing all the changes made in the supplement and the reasons for those changes.

Staff notes that there will be a short time period between the dates when PG&E submits the supplemental advice letter and the requested January 1, 2005 effective date. PG&E has informed Energy Division that it may not be able to file the supplement until December 30. We authorize PG&E to make the rates filed in the supplemental advice letter effective on January 1, 2005. The rates filed in the supplement will be reviewed by Energy Division for compliance after January 1 2005.

It is possible that after the effective date Energy Division or a party reviewing the supplement may discover compliance issues that require modification of rates filed in the supplement. In that event, PG&E shall modify the rates as required and re bill customers if necessary, or make other appropriate adjustments, in a timely manner.

**PG&E may begin to amortize in rates effective January 1, 2005, the balances in balancing accounts addressed in AL 2570-E; the account balances are subject to future audit, verification, and adjustment if necessary.**

We grant PG&E's request to amortize in rates effective January 1, 2005 the balances in the accounts addressed in AL 2570-E recorded as of November 30, 2004. We note that these balances have not been reviewed or audited. Thus, the

balances that we authorize PG&E to begin collecting in rates are subject to audit, verification, and adjustment if necessary after January 1, 2005.

**PG&E shall file its advice letter for future recovery of balancing account balances by September 1 for rates effective on January 1 of the following year; PG&E shall revise its tariffs to reflect that balancing account balances addressed in its true-up advice letter shall be reviewed through the advice letter process.**

We authorize PG&E to amortize and reflect in rates the account balances it requests in AL 2570-E. The effect of including these balances in new rates is to reduce what would otherwise be a much larger rate increase. The net balance in the aggregate of all the accounts as shown in AL 2570-E for balances recorded as of August 31, 2004 is approximately a \$327 million over-collection. We expect that the balances recorded as of November 30, 2004 will also result in a net over-collection, so amortizing these balances in rates will mitigate the rate increase resulting from Commission and FERC decisions issued before the end of 2004.

PG&E's tariffs indicate that the disposition of the balances in most of these accounts shall be done in the context of a Commission proceeding, not through the advice letter process. For example, PG&E's tariffs state that the disposition of the distribution, public purpose program, nuclear decommissioning, and utility retained generation revenue adjustment mechanisms, the PCCBA, and the ERFBA shall be determined in the annual electric true-up proceeding. PG&E's tariffs state that it may seek recovery of balances recorded in the HSM as part of an application. PG&E shall modify its tariffs within 45 days reflecting that disposition of balances in these accounts is done through the advice letter process.

PG&E suggests in AL 2570-E that the advice letter process be the vehicle to annually true-up account balances. We allow the AL process in this case because as noted above the effect of amortizing the over-collections in various accounts mitigates a significant rate increase resulting from FERC and CPUC proceedings.

Since it is necessary to allow more time for parties to review account balances addressed in true-up filings, we require that PG&E submit future advice letters to true-up these accounts earlier than it filed AL 2570-E. PG&E shall file future advice letters to amortize the accounts addressed in AL 2570-E no later than September 1 for rates effective on January 1 of the following year. The

September 1 advice letter shall include balances recorded as of July 31 of the year the advice letter is filed. That advice letter shall reflect estimated account balances for August through December.

The balances that we authorize be recovered on January 1, 2005 in this resolution are subject to future review, verification, and adjustment if necessary.

**PG&E shall update its 2005 regulatory asset revenue base revenue requirement estimate of \$493 million based on the return on equity authorized by the Commission in A.04-05-023.**

The regulatory asset revenue requirement consists of the base revenue requirement and amortization of the RARAM. The base revenue requirement for 2005, which PG&E estimates to be \$493 million is determined by amortizing the beginning 2005 principal amount over the remaining eight years of the regulatory asset. This calculation depends on PG&E's authorized return on equity.

PG&E shall update the calculation of the 2005 base revenue requirement to reflect the return on equity adopted in its cost of capital A.04-05-023. We expect that a decision in that proceeding will be issued prior to the end of 2004. Thus, the base revenue requirement included in PG&E's supplement to AL 2570-E should reflect the updated calculation.

**The 2005 regulatory asset base revenue requirement shall be subject to future review of electricity supplier credits.**

Credits resulting from settlements at FERC with entities that supplied electricity during the energy crisis to PG&E are subtracted from the principal amount that is used to determine the regulatory asset base revenue requirement. PG&E states in AL 2570-E that attorney fees specifically provided for in these settlements are not applied to reduce the regulatory asset principal amount.

In response to a data request, PG&E informed Energy Division that PG&E intends to include in tariffs filed in compliance with the Commission's decision in A.04-07-032 on energy recovery bonds (ERB), a mechanism to recover attorney fees associated with the settlements. PG&E expects to file these tariffs after it refinances its regulatory asset through the issuance of ERBs in early 2005. The 2005 regulatory base revenue requirement that PG&E files in its supplement to



AL 2570-E and included in rates effective on January 1, 2005 shall be subject to adjustment as necessary based on our review of the tariffs that PG&E files in compliance with our decision in A.04-07-032.

**PG&E shall remove from AL 2570-E proposed tariff changes to its head room account; PG&E shall submit these tariff changes as a supplement to a separate pending AL addressing the HA.**

In AL 2570-E PG&E states that it will incorporate the effects of amortizing the balance in the head room account (HA) if AL 2555-G/2521-E, which addresses that account, is approved prior to the end of 2004.

D.03-12-035 required that retention bonuses for PG&E managers and employees not be included for purposes of calculating 2003 head room. In compliance with D.04-05-055 in its test year 2003 general rate case (TY 2003 GRC) A.02-11-017, PG&E filed AL 2555-G/2521-E in June 2004. D.04-05-055 required that PG&E show in this AL that \$84.5 million in awards made for its senior executive retention program (SrERP) are not being charged to ratepayers, and required that Energy Division conduct an audit of the accounting of these awards. PG&E included in AL 2555-G/2521-E an accounting of the SrERP awards and an accounting of 2003 headroom revenues. PG&E requested in that AL to use the HA to implement three refunds occurring in 2004 which total \$64.1 million; two of these relate to prior FERC transmission owner rates cases, and the third involves post-retirement benefits other than pensions authorized in Resolution G-3362 dated March 2004.

PG&E included in AL 2570-E revisions to the HA tariff which add language allowing PG&E to include the three 2004 refunds in the HA. These tariff revisions are more appropriately addressed in AL 2555-G/2521-E, since that is the AL in which PG&E requests that these refunds be included in the HA. We deny without prejudice these tariff revisions subject to Energy Division's review of AL 2555-G/2521-E. Review of AL 2555-G/2521-E will be completed after the end of 2004.

In its supplement to AL 2570-E required by this resolution, PG&E shall remove the tariff changes it proposed to the preliminary statement addressing the HA. PG&E shall instead submit these tariff changes as a supplement to AL 2555-G/2521-E. The supplement to AL 2555-G/2521-E shall not be subject to protests since these proposed tariff changes were not protested in AL 2570-E by any

party. PG&E's proposal in AL 2555-G/2521-E to include the three 2004 refunds in the HA also was not protested.

**PG&E's proposal to increase generation rates for residential usage above 130% of baseline to collect the shortfall resulting from the requirements of Section 80110 of the Water Code (AB 1X) is subject to review in A.04-06-024.**

AB 1X, signed into law in 2001, added Section 80110 to the Water Code. Among other things AB 1X restricts residential rates for usage up to 130 percent of baseline to those levels in effect on February 1, 2001.

In AL 2570-E PG&E proposes to comply with AB 1X by adjusting the generation component of rates for residential usage up to 130% of baseline such that the total rate for such usage is not increased. PG&E proposes to allocate the shortfall resulting from adjusting those rates, to the upper tiers of residential generation rates, i.e., rates for usage above 130% of baseline. We refer to this shortfall as the "AB 1X shortfall".

We will allow PG&E to allocate the AB 1X shortfall to the upper tiers of residential generation rates as it has proposed on an interim basis. PG&E's proposed allocation method as filed in AL 2570-E is subject to modification pending the Commission's determination of how these revenues should be allocated in phase 2 of PG&E's TY 2003 GRC, A.04-06-024.

**PG&E shall establish an account to track the revenues that it collects from the upper tiers of residential rates, associated with adjusting rates for residential usage below 130% of baseline.**

Beginning January 1, 2005 PG&E shall track the revenues allocated to the upper tiers of residential generation rates associated with adjusting rates for residential usage below 130% of baseline to comply with AB 1X. The allocation of these revenues may be adjusted pending a decision in A.04-06-024. PG&E shall establish an account to track these revenues. If PG&E chooses to track these amounts in an existing account, it shall use a separate sub-account. Within 14 days of today's date PG&E shall file an advice letter designating an account in which it shall track these revenues.

## **COMMENTS**

Public Utilities Code (PU) section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. PU Code section 311(g)(2) allows for a reduction in the comment period upon stipulation of all parties. All parties have stipulated to a reduced comment period. Accordingly, the draft resolution was mailed to parties for comment under a shortened comment period pursuant to PU Code section 311(g)(2). Comments were filed by PG&E on December 9, 2004.

**PG&E states that it should be allowed to recover all of the revenues that it proposes to be allocated to the residential class. The draft resolution is modified to allow PG&E to collect these revenues; PG&E shall track revenues allocated to the upper tiers of residential rates for consideration in A.04-02-024.**

In comments PG&E raised concerns because the draft resolution would not allow PG&E to recover until after a decision in A.04-06-024 is issued, revenues associated with the AB 1X shortfall that PG&E proposed to be allocated to the upper tiers of residential rates. PG&E states that the amount of revenues involved could be as high as \$120 million. PG&E claims that deferral of its ability to collect these revenues until after a decision in A.04-06-024 violates the MSA and D.03-12-035 which ensure timely recovery of costs. PG&E states that the amount of the revenue deferred will adversely affect its quality of earnings, debt levels, and credit ratings.

Although we have not assessed the validity of PG&E's \$120 million estimate, the magnitude of the revenues that would be deferred until a decision is rendered in A.04-06-024 will be significant. A decision in that case is not expected prior to the end of 2005. We have modified the draft resolution to allow PG&E to collect these revenues as proposed beginning January 1, 2005. PG&E shall track these revenues in an account. Allocation of these revenues shall be subject to the Commission's consideration in A.04-06-024.

**PG&E states that the draft resolution should be modified to allow PG&E to make future annual electric true-up filings by advice letter. The draft resolution is modified to allow PG&E to request recovery of balancing account balances by advice letter where that is allowed by tariffs.**

PG&E comments that the draft resolution misunderstands that the revenue requirements proposed to be trued-up in AL 2570-E will have been authorized by the Commission prior to implementation of rates proposed in the AL. PG&E states that there is no need for a formal application to review the rate changes in the true up filing. PG&E states that it would be administratively burdensome to require an application for future true-up filing which would inhibit timely rate changes and reconciliation of balancing accounts. PG&E requests that the draft resolution be revised to eliminate the requirement that future annual electric true-up filings be done by formal application.

PG&E's comment that the draft resolution misunderstands that the Commission will have authorized revenue requirements proposed in AL 2570-E is misplaced. The draft resolution points out the revenue requirements it allows PG&E to update are authorized in other proceedings. The draft resolution notes that tariffs addressing many of the accounts which PG&E seeks to amortize in AL 2570-E specify that balances are to be considered in a Commission proceeding, not through the advice letter process. The draft resolution expressed concern for reviewing such accounts in an annual advice letter.

We modify the draft resolution to allow disposition of balancing accounts by advice letter, with two requirements. First, PG&E must file revised tariffs for those accounts it proposes be reviewed by advice letter, and for which applicable tariffs now specify that the accounts are to be reviewed in a proceeding. PG&E shall file these revised tariffs within 45 days from today. Second, PG&E shall file its true up advice letter no later than September 1, for rates effective January 1 of the following year to amortize account balances. The September 1 advice letter shall include recorded balances as of July 31 and estimated balances through the end of the year.

**PG&E states that the draft resolution should be revised so that it does not require re billing. Minor clarifications to the draft resolution are made in response to this comment.**

PG&E states in comments that the draft resolution would require PG&E to re bill customers after January 1, 2005 if the Energy Division or another interested party identifies compliance issues after that date. PG&E states that large scale re billing is costly and should only be used in extreme cases of inequity to customers. In other cases PG&E states that options such as post-review adjustments of balancing accounts should be used. PG&E requests that the draft

resolution be modified to state that Energy Division should pursue re billing only in severe cases where there is calculable, significant, and irreparable harm to customers that cannot be remedied absent re billing.

We clarify the draft resolution so that it states that PG&E will re bill “if necessary” in the event of compliance issues. If such issues arise and options other than re billing are preferable, those options can be pursued. We will not constrain the Commission or Energy Division on the re billing option in the manner that PG&E proposes.

**The draft resolution is revised as PG&E requests to allow amortization of the RRBMA over the three year remaining life of the bonds.**

PG&E notes in comments that it proposed in AL 2570-E to amortize that balance in the RRBMA over the three year remaining life of the rate reduction bonds. PG&E requests that the draft resolution be modified to allow the RRBMA to be amortized over three years rather than one year consistent with the method in D.04-02-062. We make this modification as proposed by PG&E.

**The draft resolution is modified to allow PG&E to amortize balances in the ERRA and the modified transition cost balancing account (MTCBA) subject to adjustment after a decision in A.04-06-003.**

PG&E requests in comments that it be allowed to amortize the balances in the ERRA and the MTCBA beginning January 1, 2005 even though a decision in A.04-06-003 will not have been issued by the end of 2004. PG&E estimates a large under-collection associated with both accounts, and the amounts are subject to the “trigger” recovery mechanisms required by Public Utilities Code Section 454.5(d)(3). PG&E notes that amounts it proposed to true up in A.04-06-003 to reflect prior periods are undisputed. Amortization of these amounts will avoid an ERRA trigger application in the near future. We modify the draft Resolution and allow PG&E to begin amortizing the ERRA and MTCBA balances beginning January 1, 2005 subject to adjustment, audit, and verification based on a decision in A.04-06-003.

**The draft resolution is revised to include the ERFBA amortization in January 1, 2005 rates.**

PG&E notes in comments that the Ordering Paragraphs of the draft resolution do not allow for amortization of the ERFBA. That omission should be corrected. We revise the Ordering Paragraphs to allow for amortization of the ERFBA in January 1, 2005 rates.

## **FINDINGS**

1. PG&E filed AL 2570-E on October 15, 2004 proposing to recover balances in accounts, establish the 2005 regulatory asset charge, and consolidate Commission and FERC authorized rate changes on January 1, 2005.
2. No party protested AL 2570-E.
3. According to the filed rate doctrine the Commission is obligated to allow PG&E to recover FERC-authorized costs for reliability services, transmission access, transmission revenue adjustments, and end use customer refunds.
4. It is just and reasonable for PG&E to begin recovering in rates, FERC-authorized revenues addressed in AL 2570-E, on the date that FERC makes rates effective to recover those revenues.
5. It is reasonable for PG&E to consolidate in rates effective January 1, 2005, amortization of balances recorded as of November 30, 2004 in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, HSM, RRBMA, ERFBA, ERRA, MTCBA, and the SRA, and all revenue requirement changes approved by the Commission and FERC by the end of 2004.
6. PG&E should supplement AL 2570-E before the end of 2004 to reflect the revenue requirement changes actually authorized by the Commission and FERC, and to update balances in accounts to be amortized on January 1, 2005. These rates should be subject to future adjustment pending review of the supplement to AL 2570-E by Energy Division.
7. The balances in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, HSM, ERFBA, ERRA, MTCBA, and the SRA to be amortized beginning January 1, 2005 should be subject to future review, verification, and adjustment if necessary by the Commission. PG&E should seek future recovery of balances in the RARAM, DRAM, PPPRAM, NDAM, UGBA,

PCCBA, RRBMA, HSM, ERFBA, and the SRA by advice letter filed no later than September 1 for rates effective on January 1 of the following year.

8. PG&E should file an advice letter within 45 days of today's date to modify its tariffs addressing the DRAM, PPPRAM, NDAM, UGBA, PCCBA, ERFBA, HSM, RRBMA, SRA, and the RARAM, to indicate that disposition of balances in these accounts shall be done through the advice letter process.
9. PG&E should update its estimate of the 2005 regulatory asset base revenue requirement filed in AL 2570-E using the return on equity adopted by the Commission in A.04-05-023.
10. The 2005 regulatory asset base revenue requirement should be subject to adjustment pending future review of electricity supplier credits.
11. PG&E should file as a supplement to AL 2555-G/2521-E, the tariff changes to Preliminary Statement part DE. as proposed in AL 2570.
12. PG&E should establish an account or a separate sub-account of an existing account to track the revenues that it collects from the upper tiers of residential rates which are associated with adjusting rates for residential usage below 130% of baseline to comply with AB 1X. Allocation of the revenues tracked in this account should be subject to adjustment pending a Commission decision in A.04-06-024.

**THEREFORE IT IS ORDERED THAT:**

1. The request of PG&E in AL 2570-E is approved with modifications.
2. The rates authorized by this resolution shall be subject to refund to the same extent that they are subject to refund at the FERC.
3. No later than December 30, 2004 PG&E shall file a supplement to AL 2570-E with revised tariffs. The supplemental filing shall be effective on January 1, 2005 subject to Energy Division determination that it is in compliance with this resolution. The supplement shall do the following:
  - a. Amortize over one year in rates the balances recorded as of November 30, 2004 in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, HSM, ERFBA, ERRRA, MTCBA, and the SRA; RRBMA balances shall be

- amortized over the remaining life of the rate reduction bonds; the account balances to be amortized are subject to future review, and adjustment if necessary by the Commission;
- b. Reflect in rates the 2005 regulatory asset revenue requirement using the most recent Commission adopted rate of return;
  - c. Reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2004;
  - d. Remove the changes proposed in AL 2570-E to Preliminary Statement part DE., addressing the head room account;
4. No later than 14 days from today PG&E shall submit the changes proposed in AL 2570-E to Preliminary Statement part DE., addressing the head room account, as a supplement to AL 2555-G/2521-E. The supplement to AL 2555-G/2521-E shall not be subject to protests.
  5. No later than 14 days from today PG&E shall file an advice letter to establish an account to track the revenues that it collects beginning January 1, 2005 from the upper tiers of residential rates which are associated with adjusting rates for residential usage below 130% of baseline to comply with AB 1X. If PG&E chooses to track these amounts in an existing account, it shall establish a separate sub-account. Allocation of revenues recorded in this account will be determined by the Commission in A.04-06-024 or other proceeding designated by the Commission.
  6. If PG&E requests amortization of future balances in the RARAM, DRAM, PPPRAM, NDAM, UGBA, PCCBA, RRBMA, ERFBA, HSM and/or the SRA by advice letter for rates effective on January 1, it shall file the advice letter no later than September 1 of the year prior to when rates become effective. The advice letter shall reflect balances recorded as of July 31 of the year in which the advice letter is filed, and estimated balances for August through December of that year.
  7. PG&E shall file an advice letter within 45 days of today's date to modify its tariffs addressing the DRAM, PPPRAM, NDAM, UGBA, PCCBA, ERFBA, HSM, SRA, RRBMA, and the RARAM, to indicate that disposition of balances in these accounts shall be done through the advice letter process.



I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2004; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director